



**MASSACHUSETTS DEPARTMENT OF REVENUE**  
**PERSONAL INCOME TAX**  
**NON-RESIDENT TAXPAYERS MASSACHUSETTS AND U.S. TOTAL**  
**INCOME DIFFERENCES FOR TAX YEAR 1987**

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**ISSUE:**

Why do the instructions of the non-resident income tax form (Form 1-NR) indicate that the amount of a non-resident's U.S. total income in Item 2 of the form (for tax year 1987) may not be the same as the amount the taxpayer enters in Item 14(f)?

**DISCUSSION:**

A non-resident taxpayer is required to provide U.S. total income on the Form 1-NR. In addition, the non-resident taxpayer must indicate on the form the sum of Massachusetts total 5% income, 10% income and the additional income that would have been reported as Massachusetts income had the taxpayer been a Massachusetts resident. Due to the differences between Massachusetts and federal tax laws, however, these two amounts may not be the same. For tax year 1987, these differences include:

<b>Differences</b>	<b>Federal Tax Treatment</b>	<b>Mass. Tax Treatment</b>
Social Security and Tier 1 Railroad Retirement Benefits	Taxable when income above certain level, I.R.C. § 86.	Exempt, G.L. c. 62, § 2(a)(2)(H).
Distributions from contributory retirement plans of the U.S., Massachusetts and other states which do not tax such income	Generally taxable, I.R.C. § 402.	Exempt, G.L. c. 62, §§ 2(a)(2)(E), 3B(4).
U.S. bond interest	Taxable, I.R.C. § 103.	Exempt, G.L. c. 62, § 2(a)(2)(A).
Bond interest from other states	Exempt, I.R.C. § 103.	Taxable, G.L. c. 62, § 2(a)(1)(A).
Foreign earned income	\$70,000 exempt, I.R.C. § 911.	Fully Taxable, G.L. c. 62, § 2(a)(1)(C).
Scholarship and fellowship income	Room and board portion now taxable; remainder exempt for degree candidates only, I.R.C. § 117.	Fully exempt for degree candidates; non-degree candidates up to \$300/month exempt with 36 month maximum, G.L. c. 62, § 1(c).

# D O R D I R E C T I V E

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## Differences

## Federal Tax Treatment

## Mass. Tax Treatment

IRA distributions

Generally taxable,  
I.R.C. § 408(d).

Taxable after  
contributions are re-  
covered, G.L. c. 62,  
§ 2(a)(2)(F).

Voluntary § 403(b) annuity  
contributions

Exempt,  
I.R.C. § 403(b).

Taxable,  
G.L. c. 62,  
§ 2(a)(1)(D).

Unemployment  
compensation

Taxable,  
I.R.C. § 85.

Taxable when  
income above cer-  
tain level, G.L. c. 62,  
§ 1(c).

Long term capital gain  
deduction

None.

50%, G.L. c. 62,  
§ 2(c)(3).

State tax refunds

Taxable to itemizers,  
I.R.C. § 111.

Exempt (no  
prior deduction  
under G.L. c. 62,  
§ 2(d)).

Net operating loss carry  
forward

Deduction allowed,  
I.R.C. § 172.

Deduction  
disallowed, G.L. c.  
62, § 2(d)(6).

## Additional Differences for Taxpayers with Schedule C or Schedule E Income

Massachusetts follows U.S. depreciation rules in effect on January 1, 1985. Mass-  
achusetts does not adopt the U.S. passive activity loss restrictions.

## Additional Difference for Shareholders of Electing S Corporations

There will also be a difference for shareholders of an S corporation which elects under  
the transition rule in section 72 of chapter 488 of the Acts of 1987 and  
830 CMR 62.17A.1 to be taxed under the laws in effect prior to the Massachusetts  
adoption of federal S corporation treatment. This difference is:

Income from an S  
corporation

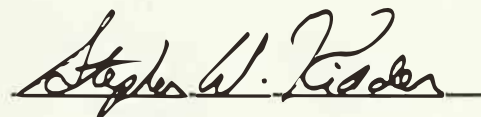
Undistributed  
income taxable,  
I.R.C. § 1366.

Actual  
distributions  
taxable, G.L. c. 62,  
§ 2(a)(1)(E) (1973)  
(amended 1986).

# D O R D I R E C T I V E

**DIRECTIVE:** Such differences often result in a discrepancy between a non-resident taxpayer's U.S. total income and the sum of total 5% income, 10% income and the additional income that would have been reported as Massachusetts income had the taxpayer been a Massachusetts resident. Thus, the amount of U.S. total income in Item 2 of the Form 1-NR may not be the same as the amount in Item 14(f).

March 23, 1988



Stephen W. Kidder  
Commissioner of Revenue

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This Directive represents the official position of the Department of Revenue on the application of the law to the facts as stated. The Department and its personnel will follow this Directive, and taxpayers may rely upon it, unless it is revoked or modified pursuant to 830 CMR 62C.01(5)(e). In applying this Directive, however, the effect of subsequent legislation, regulations, court decisions, Directives, and TIRs must be considered, and Department personnel and taxpayers may rely upon this Directive only if the facts, circumstances and issues presented in other cases are substantially the same as those set forth in this Directive.